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South Carolina Legislative Audit Council

Report to the General Assembly

September 1993

A Management Review of the Savannah Valley Authority



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September 1993

A Management Review of the Savannah Valley Authority

Members of the General Assembly requested that we conduct a performance audit of the Savannah Valley Authority (SVA). Our review focused on the agency's management from FY 90-91 through the spring of 1993. The mission of the SVA, located in McCormick, was to promote economic development in the 13 counties of the Savannah River basin. On July 1, 1993, the authority became the Division of Savannah Valley Development of the Department of Commerce.

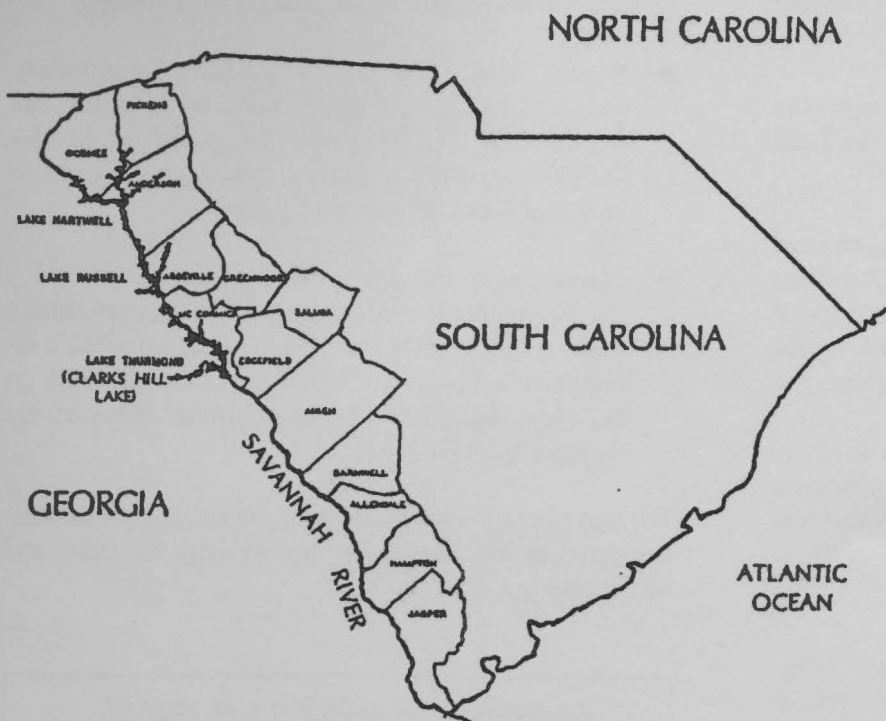
We reviewed the contracts and projects administered by the SVA and found that the authority did not hold its contractors and other entities accountable for the results of state expenditures. We found evidence that the SVA did not exercise adequate oversight in its use of state resources.

Contract Management

We identified several problems with the authority's contract with The Fontaine Company, Inc. (p. 7). The SVA paid this consultant more than \$2 million in fees and expenses for work beginning in December 1990 and ending in May 1993. We found that:

- The contract gave The Fontaine Company sole discretion in assigning employees to tasks, and 83% of the fees charged were at the highest rate of \$150 per hour. Senior-level employees performed such tasks as collecting names and addresses of hunters.
- The contract did not have an overall budget, and there were no caps or limits to the amount of money to be paid for Fontaine's services.

Savannah Valley Authority 13-County Jurisdiction



- The contract lacked any provision requiring that services be completed, although such a provision is required by law. Many of the services required by the contract were not completed and did not result in an identifiable product or outcome for the authority.

- The SVA director did not establish procedures to authorize Fontaine's work or monitor costs. The SVA paid for work that appeared unnecessary; for example, it spent approximately \$111,000 for demographic and economic data about the town of Calhoun Falls, which has a population of only 2,328.

Amounts Spent on Lobbying

We reviewed the authority's expenditures for lobbying from December 1990 through March 1993 (p. 16). The SVA paid about \$155,500 in fees and expenses for consultants to lobby state government and about \$169,500 for consultants to lobby federal officials. For FY 91-92, lobbying accounted for 10% of the SVA's expenditures. The authority underreported the amount it spent to lobby state government by more than \$91,000 in a 15-month period.

Computer Model Funding

The SVA did not exercise appropriate controls over the \$385,000 it paid the Water Resources Commission to develop a computer model of the Savannah River lake system (p. 21). There was no written agreement between the SVA and water resources which defined each agency's responsibility for funding or ensured that the product would be completed.

Lake Russell Project Management

We reviewed the management of the Lake Richard B. Russell project on 3,300 acres adjacent to Lake Russell and the town of Calhoun Falls (p. 29). This project is still in the planning stages. We found the following problems:

- The SVA did not require The Fontaine Company to complete a project implementation plan for the Lake Russell site, as required by contract.
- A proposal for a 100-room lodge and recreational complex is the major product of the \$1.5 million paid to Fontaine for this project. This strategy of focusing on the lodge was based on the SVA's need for income, not on an overall development plan.
- The SVA plan focused on the use of state funds to build the lodge, instead of private development funds. This would put state funds at risk if the venture were unsuccessful.

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Aiken County Project Management

We also reviewed the SVA's use of \$4.5 million in capital improvement bonds that were authorized in 1991 for an "Aiken County project" (p. 33). We found the authority to be in compliance with the legislative mandate and state procedural requirements. However, we identified some problems with SVA's management of one proposed commitment of the bond funds:

- A proposed commitment of \$3.5 million to a start-up company to locate in Aiken County ended in a contractual dispute and a \$50,000 settlement paid by the SVA. We did not find adequate evidence of board authorization for SVA's actions regarding the commitment and settlement.
- The executive director permitted The Fontaine Company to deviate from its written contract by allowing a contingency pay arrangement instead of payment on an hourly basis.

Savannah Lakes Village

Savannah Lakes Village was the authority's first major development project, undertaken jointly with a private development company, Cooper Communities, Inc., beginning in 1988 (p. 37). We reviewed selected management issues related to Savannah Lakes Village:

- We reviewed a \$20 million loan from the Insurance Reserve Fund to finance infrastructure for the development. We found that the special tax paid by the development's residents should be adequate to meet the debt service schedule (p. 38).
- We reviewed changes to the agreements governing the development and concluded the changes should have no detrimental effect on the state's or SVA's interest in the project. However, we could find no evidence that SVA's board approved some of the changes (p. 41).

We also identified problems with the authority's internal management of personnel, accounting, vehicles and equipment (pp. 23-26).

Responses to our audit begin on page 47.

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Report to the General Assembly

**A Management
Review of the
Savannah Valley
Authority**

Contents

Executive Summary

Administrative and Contract Management	vi
Project Management	vii

Chapter 1 Introduction and Background

Audit Objectives	1
Scope and Methodology	3
Background and History	4

Chapter 2 Administrative and Contract Management

Contract With The Fontaine Company	7
Washington, D.C., Consultant's Contract	15
Expenditures for Lobbying	16
Computer Model Funding	21
Savannah Valley Authority Board	22
Personnel Management and Policies	23
Accounting Policies	25
Vehicle and Equipment Management	26
Travel Expenditures	27

Chapter 3 Project Management

Lake Richard B. Russell Project	29
Aiken County Capital Improvement Bonds	33
Savannah Lakes Village	37
Insurance Reserve Fund Loan	38
Contract Changes	41
Savannah Lakes Regional Loan Fund	44
Hampton County Project	45

Appendix

Agency Comments	47
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Contents

Executive Summary

Members of the General Assembly requested that we conduct a performance audit of the Savannah Valley Authority (SVA). On July 1, 1993, the authority became the Division of Savannah Valley Development of the Department of Commerce. Because our period of review ended prior to this date, we refer to the agency in this report as the "Savannah Valley Authority."

The SVA did not exercise adequate oversight in its use of state resources.

Overall, we found evidence that the SVA did not exercise adequate oversight in its use of state resources. We reviewed several aspects of the authority's administrative and contract management, and its management of selected projects. The authority did not hold its contractors and other entities accountable for products and/or results of state expenditures. We found little evidence that the SVA stressed cost effectiveness in its use of resources.

We found the SVA did not always have appropriate priorities for its use of funds. For example, the SVA's conviction that it needed a source of ready cash in order to become self-sufficient resulted in questionable priorities in development planning. We also question the priority the agency gave to lobbying the state Legislature.

We also identified problems concerning the SVA board and how it conducted business. These problems are less material, however, now that SVA has been placed in the Department of Commerce and the board no longer exists. We have omitted recommendations directed specifically to the board, although we have presented all findings developed in response to our audit objectives.

Because the director of the Department of Commerce now has the authority formerly vested in the SVA board, we have directed most of our recommendations to the director. This in no way implies that he is responsible for any of the conditions cited. The period of our review was entirely prior to the creation of the Department of Commerce.

Our findings can be categorized under the general headings of administrative and contract management, and project management.

Administrative and Contract Management

We identified several problems with the authority's contract with The Fontaine Company, Inc. (see p. 7). The SVA paid this consultant more than \$2 million in fees and expenses for work beginning in December 1990 and ending in May 1993. We found that:

- The contract did not have an overall budget, and there were no caps or limits to the amount of money to be paid for Fontaine's services.
- The contract gave The Fontaine Company sole discretion in assigning employees to tasks, and 83% of the fees charged were at the highest rate of \$150 per hour. For example, senior-level employees performed such tasks as collecting names and addresses of hunters.
- The contract lacked any provision requiring that services be completed, although such a provision is required by law. As a result, many of the services required by the contract were not completed and did not result in an identifiable product or outcome for the authority.
- The SVA executive director did not establish any procedures to monitor Fontaine's activities and costs. We found no evidence that any proposed tasks or expenditures were disallowed. As a result, the SVA paid for work that appeared unnecessary, such as \$13,000 to research cultural diversity issues. The SVA also spent approximately \$111,000 for demographic and economic data about the town of Calhoun Falls, which has a population of only 2,328.
- The contract was identified as an inappropriate sole source contract in a procurement audit conducted by the Office of Audit and Certification of the Division of General Services.

For FY 91-92, lobbying accounted for 10% of the SVA's expenditures.

The SVA's expenditures for lobbying demonstrated questionable judgement in allocating its resources (see p. 16). We reviewed the authority's expenditures for lobbying from December 1990 through March 1993. During this time the SVA paid about \$155,500 in fees and expenses for consultants to lobby state government and about \$169,500 for consultants to lobby federal officials. For FY 91-92, lobbying accounted for 10% of the agency's expenditures. We also found that the SVA did not fully disclose the amounts that it spent on lobbying on disclosure forms filed with the Secretary of State. The authority underreported the amount it spent to lobby state government by more than \$91,000 in a 15-month period.

The authority paid the Water Resources Commission \$385,000 to develop a computer model that has not been completed (see p. 21). The SVA did not have a written agreement with water resources and did not exercise appropriate controls over the results of its expenditures for the model.

The SVA board did not always comply with the Freedom of Information Act (see p. 22). We also identified problems with the authority's internal management of personnel, accounting, vehicles and equipment (see pp. 23-26).

Project Management

We reviewed the management of the Lake Richard B. Russell project, which encompasses approximately 3,300 acres adjacent to Lake Russell and the town of Calhoun Falls (see p. 29). The authority envisions a "mixed-use" development for the project, which is still in the planning stages. We found the following problems:

- The SVA did not require The Fontaine Company to complete a project implementation plan for the Lake Russell site, as required by its contract.
- A proposal for a 100-room lodge and recreational complex is the major product of the \$1.5 million paid to Fontaine for a project implementation plan. This strategy of focusing on the lodge was based on the SVA's need for income, not on an overall development plan.
- The SVA plan focused on the use of state funds to build the lodge, instead of private development funds. This would put state funds at risk if the venture were unsuccessful.

We also reviewed the SVA's use of \$4.5 million in capital improvement bonds that were authorized in 1991 for an "Aiken County project" (see p. 33). We found the authority to be in compliance with the legislative mandate and state procedural requirements. However, we identified some problems with SVA's management of one proposed commitment of the bond funds:

- A proposed commitment of \$3.5 million to a start-up company that would locate in Aiken County ended in a contractual dispute and a financial settlement of \$50,000 paid by the SVA. We did not find

adequate evidence of proper board authorization for SVA's actions regarding the commitment and settlement.

- The executive director permitted The Fontaine Company to deviate from its written contract by allowing a contingency pay arrangement instead of payment on an hourly basis.

Savannah Lakes Village was the authority's first major development project, undertaken jointly with a private development company, Cooper Communities, Inc., beginning in 1988 (see p. 37). It is a retirement/recreational development, primarily consisting of single family homes and other amenities, such as a golf course. We reviewed selected management issues related to Savannah Lakes Village:

- We reviewed the \$20 million loan from the Insurance Reserve Fund which is being used to finance the construction of roads, water and sewer for the development. We found that the special tax paid by the development's residents should be adequate to meet the debt service schedule on the loan (see p. 38).
- We reviewed the agreements governing the development and changes to the agreements through June 1993. We concluded the changes should have no detrimental effect on the state's or SVA's interest in the project. However, we could find no evidence that SVA's board approved some of the changes (see p. 41).

We also reviewed the management of the Savannah Lakes Regional Loan Fund (see p. 44) and verified the SVA's role as a pass-through agency for funds appropriated by the General Assembly for use in Hampton County (see p. 45).

Introduction and Background

Audit Objectives

Members of the General Assembly requested that we conduct a performance audit of the Savannah Valley Authority. We conducted survey work at the authority and consulted with the audit requestors to clarify the issues and define specific audit objectives. The resulting 17 audit objectives (with references to discussion of our findings) are listed as follows.

Introduction and Background

Review the SVA's background, history and mission, to include review of issues related to statutory changes in 1992 (see p. 4).

Administrative and Contract Management

Review SVA management of major contracts to determine whether the authority's policies and practices have ensured required contractor performance (see p. 7).

Review the authority's use of state funds for lobbying (see p. 16).

Review the SVA's relationship with the Water Resources Commission (see p. 21).

Review the SVA's compliance with the Freedom of Information Act and other requirements for meetings of public bodies (see p. 22).

Determine whether policies and procedures have been adequate to prevent conflicts of interest for SVA board or staff members (see p. 22).

Review SVA personnel management (see p. 23).

Review the authority's accounting policies beginning July 1, 1992 (see p. 25).

Review the authority's vehicle and equipment management (see p. 26).

Review SVA travel expenditures (see p. 27).

Project Management

Review SVA's management of the Lake Richard B. Russell project (see p. 29).

Review the authorization and use of the \$4.5 million the SVA received in the 1991 bond bill (Aiken County project) (see p. 33).

Review the authority's acquisition and use of a \$20 million loan from the Insurance Reserve Fund (see p. 38).

Review the 1992 Addendum to the Design/Build agreement for the Savannah Lakes Village project (see p. 41).

Review the timber cutting agreements for the Savannah Lakes Village development (see p. 41).

Review SVA's management of the Savannah Lakes Regional Loan Fund (see p. 44).

Review the Hampton County project to determine the SVA's role (see p. 45).

In our report, findings are discussed and conclusions and recommendations made as applicable. Since July 1, 1993, the board of the Savannah Valley Authority no longer exists, and the authority has become a division of the Department of Commerce. Therefore, we have omitted recommendations which would have been directed to the board. We have retained discussion of findings relevant to the audit objectives.

Scope and Methodology

We reviewed the administrative and contract management of the Savannah Valley Authority, and its management of selected projects. The period of review varied with the specific audit objectives, but generally, our audit concentrated on the period beginning with FY 90-91 through spring 1993.

There were concurrent audits and reviews of the SVA being carried out by other agencies. These included a procurement audit by Division of General Services' Office of Audit and Certification, a financial audit for FY 90-91 and FY 91-92 by the State Auditor's office, and a review of the results of the SVA's economic development projects by the State Development Board (now the Division of State Development of the Department of Commerce). There was also an ongoing lawsuit that involved the SVA. We defined the scope of our review to avoid duplication with other reviews or issues currently in litigation.

SVA records were the primary evidence we examined in conducting our audit. We reviewed the authority's personnel and accounting records, as well as contracts negotiated by the authority. We reviewed minutes of the SVA's board meetings for FY 89-90 through FY 92-93. We reviewed reports, correspondence and other products resulting from the SVA's contracts. We also obtained and reviewed information from the offices of the Comptroller General, the Secretary of State, and the State Ethics Commission. We conducted interviews with SVA officials and board members. We also interviewed officials with other South Carolina state agencies, and officials with other states and the federal government.

The primary criteria we used to measure our results were state law and regulation, particularly the SVA's authorizing legislation, state law and regulations for ethics, personnel, travel, the conduct of public business, and use of capital improvement bonds. We also used the SVA board's bylaws, the contracts governing the Savannah Lakes Village development and the Division of General Services' policies for contracting.

We reviewed management controls used by the SVA to monitor contracts and ensure the effective use of state funds. We reviewed internal management controls over personnel, vehicles and equipment. We reviewed the board's controls to ensure authorization of SVA activities and compliance with the Freedom of Information Act.

We did not use sampling to accomplish our audit objectives, with the exception of some limited judgmental sampling in internal administrative areas, as described in the audit report.

This audit was conducted in accordance with generally accepted government auditing standards.

Background and History

The Clark's Hill Authority was created in 1946 to deal with the impacts of the construction of Lake Thurmond (then the Clark's Hill Lake). The original organization became dormant after the construction of the lake.

The authority has been in continuous active existence since 1971, when Act 449 created a five-member board for the Clark's Hill Authority and authorized the agency to hold title to lands released as surplus by the United States Army Corps of Engineers. The authority's name was changed to the Savannah Valley Authority (SVA) in 1988.

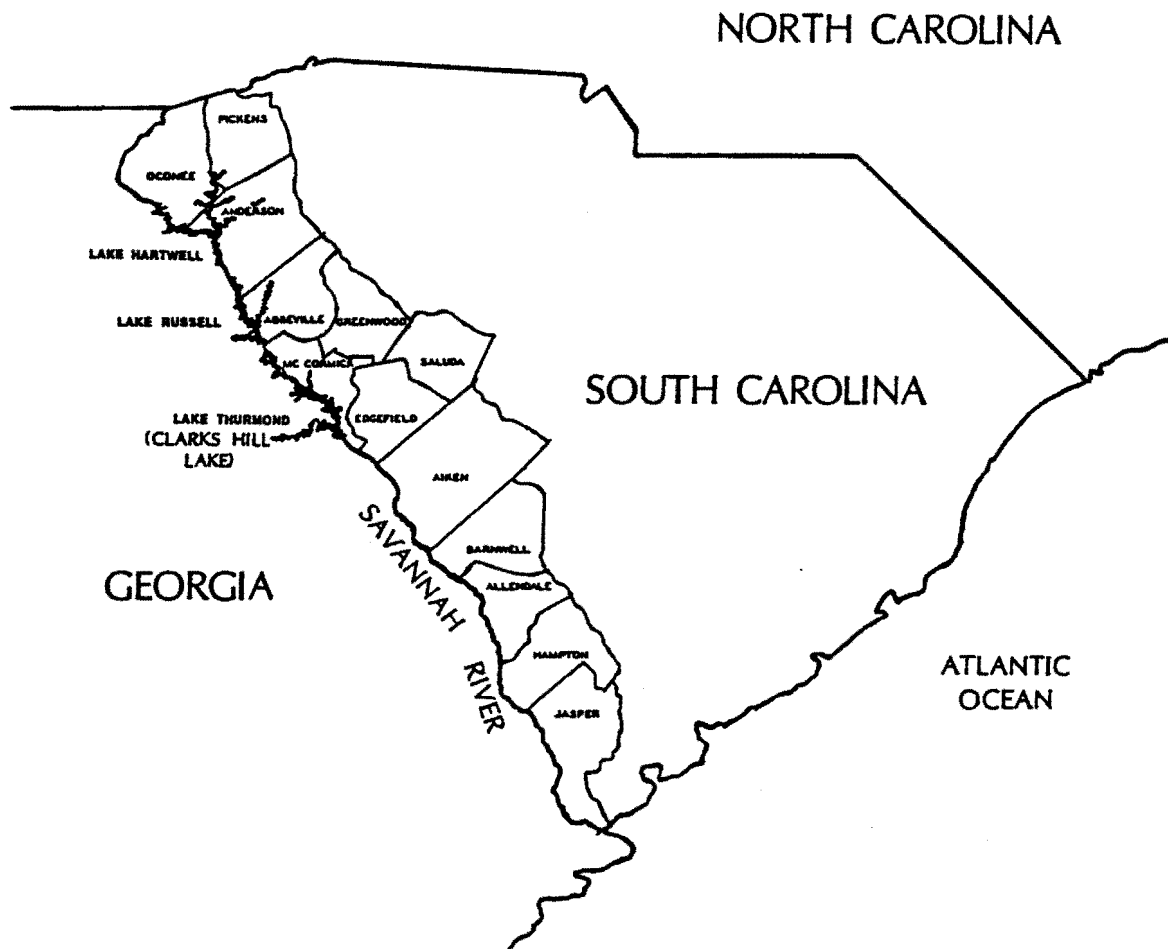
Changes in Jurisdiction and Mission

Over the past 20 years the authority's legislation has been amended a number of times, generally increasing the scope of its jurisdiction and the breadth of its mission. While the original jurisdiction was the area of the Clark's Hill project on the Savannah River in McCormick County, the authority now has jurisdiction over the 13 counties that border the Savannah River or are in the Savannah River basin (see map on p. 5).

The original mission of the agency related specifically to receiving lands from Corps of Engineers projects on the Savannah River; the mission was tied to the development of the river. Over the years the scope of the SVA's mission has expanded to encompass a wide range of general economic development activities, such as the use of incentives to attract new industry to the area. The authority is authorized to issue revenue bonds to finance its activities, although it has not done so.

Chapter 1
Introduction and Background

Savannah Valley Authority 13-County Jurisdiction



The authority acquired still broader powers in the 1992 legislation which increased the size of its board to 13. The 13 board members (11 from specific geographic areas and 2 at-large) were to be appointed by the Governor with the consent of the Senate for 4-year terms. The 1992 law exempted the authority from the state procurement code and identified it as a "regional development agency," allowing it to make property transactions without State Budget and Control Board approval. Its staff were to be employed at will and were to be state employees only for purposes of health benefits and the State Retirement System. The authority was to institute its own accounting policies and could establish profit or not-for-profit corporations as necessary to carry out its mission.

Restructuring in 1993

As a part of state government restructuring, the authority became the Division of Savannah Valley Development of the new Department of Commerce beginning July 1, 1993. All the functions, powers and duties of the SVA are transferred to the Department of Commerce. There is no longer an SVA board; the director of the Department of Commerce has rights and powers previously vested in the authority's board.

Staff and Funding

The authority's office is in McCormick County. Although the agency has eight FTEs, since January 1993 there has been a staff of six employees, headed by an executive director. The SVA has generally received annual appropriations of state general funds ranging from \$1 million to \$2 million. For FY 92-93, the authority received \$1,125,494.

In conjunction with its 1992 legislation, the authority believed that, at the direction of the Governor, it was to become a self-sufficient enterprise agency; state funding was to be phased out. However, the authority has continued to receive an appropriation. For FY 93-94, the Division of Savannah Valley Development has been appropriated \$1,088,774 in state general funds.

Administrative and Contract Management

Contract With The Fontaine Company

For consultant work beginning in December 1990 and ending in May 1993, the Savannah Valley Authority (SVA) paid The Fontaine Company, Inc., more than \$2 million in fees and expenses: \$1.7 million for hourly fees and \$348,000 for expenses and the cost of subcontractors. Our review of the SVA's contract for consulting services found that it did not contain the standard assurances necessary to ensure cost control, fiscal accountability, and contractor performance. Specific problems with the contract and its management are discussed in the following pages.

Background

The contract with The Fontaine Company specified four general areas of work or "tasks."

Selected SVA Projects

The consultants were to develop "Project Implementation Plans" for three distinct projects.

- The Richard B. Russell Lake development project.
- Multi-county or multi-jurisdictional research/industrial parks.
- A regional infrastructure system including roads, water, sewer and communications.

Information Systems

The consultants were to develop appropriate information systems and databases, to be SVA's exclusive property.

Additional Expertise

The consultants were to provide additional expertise on planning, economics and finance at the authority's direction.

Lobbying

Fontaine was authorized to "represent its interest before the appropriate public and private sector bodies." (Lobbying by Fontaine's employees is reviewed on page 16.)

We reviewed invoices and detailed time sheets from Fontaine to determine the amount billed for each contract task and the specific activities performed by the firm's employees. Table 2.1 shows that about \$1.5 million, or 76% of the consultants' time and expenses were charged to the Lake Russell project.

Table 2.1: Cost of Individual Contract Tasks

Lake Russell Development	\$1,566,349
Research/Industrial Park	162,979
Infrastructure	128,434
Information Systems	22,836
Additional Expertise	118,920
Clerical/Other ^a	52,389
Total (Includes Labor, Expenses and Subcontractors' Charges)	\$2,051,906^b

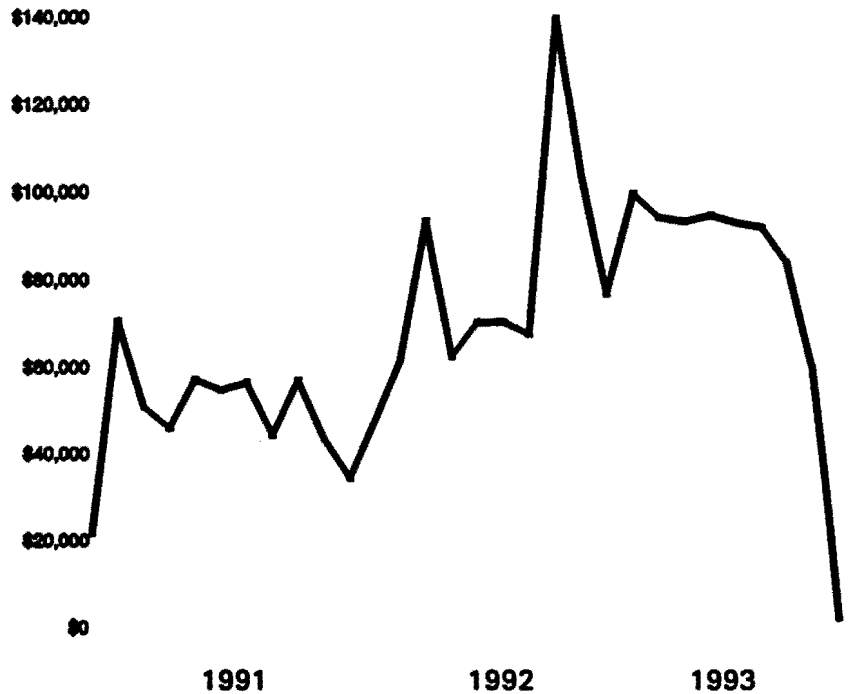
- ^a The majority of Fontaine's charges for lobbying are included in the cost of the individual projects.
- ^b Numbers may not add due to rounding.

No Control Over Total Contract Costs

SVA's contract with The Fontaine Company did not contain any caps or limits to the amount of money to be paid for consulting services. The authority agreed to pay the consultants' time and expenses, with hourly fees ranging from \$45 an hour (clerical) to \$150 an hour (senior associate).

We found that, although the board directed the executive director in March 1991 to negotiate a fixed fee instead of an hourly rate, no limits were ever set. The consultants' fees averaged \$48,306 a month for FY 91-92 and \$79,100 for the first nine months of FY 92-93. These amounts are about twice the SVA staff payroll and benefits for the same periods. Graph 2.1 shows the monthly amount paid by the SVA for Fontaine's total fees and expenses.

**Graph 2.1: The Fontaine
Company's Monthly Fees and
Expenses
January 1991—June 1993**



Source: Comptroller General's office and SVA vouchers and ledgers.

The contract did not establish an overall budget for the planning and consultant work to be performed. The Fontaine Company had given SVA an estimate that the cost of the contract for FY 90-91 would be \$200,000. However, the actual expenditures in FY 90-91 were \$350,000.

No Control Over Contractor's Use of Employees

The contract gave The Fontaine Company sole discretion in assigning employees to tasks. The firm could assign high-level employees to any task, and we found that 83% of the consulting fees charged were for senior associates at \$150 an hour.

We noted instances where the SVA paid for inefficient use of senior-level staff. For example, as part of its task related to Lake Russell development, Fontaine performed an analysis on the feasibility of

developing a lodge and recreation complex in Calhoun Falls. Part of this analysis was a marketing survey of hunters and fishermen who pursue their hobbies in the Calhoun Falls area. Fontaine subcontracted with Clemson University to conduct this survey for \$17,900.

The contract with Clemson specified that Clemson was to use Fontaine employees to summarize western Piedmont "hunter kill cards." These are the cards that hunters fill out at wildlife check stations after they have killed a deer. The cards were used to identify hunters who could be sent a survey. Collecting these cards yielded 990 names and addresses for use in the survey.

Fontaine's total charge for obtaining the hunters' names and addresses came to approximately \$36,200, more than twice Clemson's cost to analyze the data and complete the survey. We estimated that 164 (55%) of the hours involved were billed at \$150 an hour. We could not find any justification for using the most expensive employees to perform the data collection task.

No Provision for Completion of Services

The SVA's contract with The Fontaine Company lacked a standard provision, required by the South Carolina Code of Laws (§11-9-105), which states that "Any contract for legal or consultant services entered into by a state agency or institution shall include a provision which requires completion of all services."

Because the contract was not renewed, it ended on July 1, 1993. However, some services were not completed and did not result in an identifiable product or outcome for the authority, even though the SVA had been billed for work in each of the contract areas.

- There is no evidence that the SVA received a completed project implementation plan for any multi-jurisdictional research park as required in the consulting contract. The SVA paid Fontaine \$162,979 for work in this area.
- There is no evidence that the SVA received a completed project implementation plan for the development of a comprehensive, regional public infrastructure project as required by the consulting contract. The authority has received reports from engineering subcontractors evaluating local water and wastewater treatment systems. According to the SVA executive director, a plan exists in concept but he had

never expected to receive a formal, written document from the consulting firm. In addition to \$55,000 in charges for the subcontractors' evaluations, Fontaine charged the SVA \$73,434 for its time and expenses in this area.

- The SVA did not receive any demonstrable benefit for \$22,836 billed by Fontaine for the development of information systems. As part of the Lake Russell project, the consulting firm developed computer diskettes of maps. But, according to the executive director, the authority does not have the computer system needed to use these diskettes.
- The \$1.5 million spent on a development plan for Lake Russell did not result in an implementation plan for the entire Lake Russell project. Rather the consulting firm produced a marketing and financial analysis focusing on Calhoun Falls, a part of the project site. This area is discussed further on page 29.

The contract specified that "SVA understands that The Fontaine Company does not guarantee successful implementation of any of the projects" However, this clause should not have prevented the SVA from ensuring that it received the implementation *plans*, as well as final reports outlining the consultant's efforts and progress in the various areas.

According to the executive director, the goal of the contract with Fontaine was not to obtain written plans but to "implement projects" and to "obtain funding and private investment." However, as of July 1993, the SVA projects have not been implemented, and private investment and funding have not been obtained.

Section 11-9-105 also requires state contracts to provide that, if services are not fully completed, the money paid for these services by the agency must be refunded along with a 12% penalty. Since the SVA contract did not include this provision, the authority may not be able to recoup any funds paid to the consultant.

No Progress Reports Used

SVA's contract with The Fontaine Company did not contain any language specifying completion dates or review dates for tasks. Also, SVA neither required nor received regular progress reports. Procedures for the procurement of consulting services established by the Division of General Services note that progress reports are the most common method for monitoring a contractor.

Division of General Services procedures also state that consulting contracts should "... identify all documentation and reports to include specific delivery date for each in which the contractor must furnish such items."

Management of Contract Expenditures

The only provision in the contract that gave the SVA any control over costs was that the SVA must authorize the work to be undertaken by the consultant. The executive director assured the board, in a memo dated November 28, 1990, that this stipulation together with annual renewal options would allow it to "tightly manage the expenditures related to the contract." However, we found no evidence that these expenditures were monitored.

According to the SVA director, his authorizations were "verbal." We found no evidence that the SVA established any policies or procedures for authorizing and monitoring the consultant's work. Also, we found no documentation that any proposed tasks or contract expenses were disallowed by the director (except after certain expenditures were questioned by the news media). In one instance, the executive director allowed The Fontaine Company to work on a contingency basis, in violation of contract terms (see p. 33).

The SVA's ineffective monitoring of contract costs resulted in some expenditures that appeared unnecessary or inappropriate. For example:

- The SVA spent at least \$111,000 to have Fontaine senior associates research demographic and economic data about the town of Calhoun Falls, which has a population of only 2,328. This research was compiled in a report, which did not state the reason for compiling this data or what goals it would be used to support. The data used in this demographic report were readily available from state agencies.

- In 1992, in order to explore the possibility of locating a corporate training center at Lake Russell, Fontaine employees met with cultural diversity experts from Atlanta. The consultants' charges to research cultural diversity issues and to meet with cultural diversity experts totaled approximately \$13,200. We found no report of the results of these expenditures. Therefore, we could not determine the value of this research to the project.
- In addition to the \$36,200 spent to obtain hunters' names from deer tags (see p. 10), Fontaine billed the SVA another \$35,500 in charges connected with the \$17,900 Clemson survey. We found no evidence that the SVA attempted to control Fontaine's billings for its part in acquiring and using the survey.
- Again using a senior associate, Fontaine billed approximately \$8,600 to study fishing activity on Lake Russell. This was done to obtain evidence supporting the attractiveness of Lake Russell to fishermen.
- Several inappropriate charges by the consulting firm were not questioned by the SVA director until called to his attention. These charges included:
 - \$1,275 to meet with a state representative.
 - \$225 to meet with the son of a U.S. Senator.
 - \$825 for a research associate (at \$75/hour) to drive from Columbia to McCormick on three separate dates to pick up the consulting firm's check at SVA offices.
 - \$232 in attorney's fees that Fontaine inadvertently passed on to the SVA.
 - \$150 for a research associate to drive from Columbia to Greenwood to pick up engineering documents.

As of August 1993, the SVA has received \$2,400 in refunds for these payments.

No Competitive Bidding for Subcontractors

SVA's contract with The Fontaine Company gave the consultant sole discretion in employing subcontractors. The SVA paid \$307,197 for subcontractors used by Fontaine from December 1990 through May 1993. These subcontractors furnished primarily consulting, marketing and architect/engineering services.

By obtaining these services through subcontracts, the SVA did not seek competitive bidding. Without competitive bidding, the authority has no assurance that these contracts were cost effective or provided fair and equitable treatment to all vendors who offer these services.

Contract Inappropriately Procured

The contract with The Fontaine Company was a sole source procurement. In justifying this decision, the SVA wrote that Fontaine "is the only company that possess [es] the level of experience and knowledge necessary to successfully design, implement and establish a sound footing for these projects for the Savannah Valley Authority."

However, a procurement audit, conducted by the Division of General Services Office of Audit and Certification early in 1993, stated that the SVA should have solicited competition for the contract.

Conclusion

The contract between the SVA and The Fontaine Company was not consistent with good business practices as expressed in standard state procurement guidelines. The contract did not set any limits on SVA's total costs; it contained no time lines or due dates; it did not require progress reports; and it did not require completion of services as required by state law.

We found that the consulting firm's charges and use of its employees were not adequately monitored by the SVA executive director, and that the sole source procurement of this contract was not justified.

As a result, \$2 million in state resources that could have been used to make a positive economic development impact were diverted into a contract which yielded uncertain benefits to the state. In some areas, we could find no discernable result of the monies spent.

Washington, D.C., Consultant's Contract

We also reviewed the results of SVA's contract with a Washington, D.C., consulting firm, Kinghorn and Associates. For a monthly fee plus expenses, this consultant represented the authority's interest "in the governmental arenas in Washington, D.C., and in South Carolina." From the beginning of FY 89-90 through May 1993, the SVA paid \$68,800 for these services.

The SVA required no progress reports or other documentation of work performed from the Washington consultant. Therefore, we could not determine if the SVA monitored the consultant's performance and what was accomplished through this contract.

The authority's executive director stated that the role of the Kinghorn firm was to obtain federal funding for infrastructure and a new federal facility. The authority, as of July 1993, has been unable to obtain federal funding for any projects. According to the executive director, the consultant helped obtain a cancellation of Calhoun Falls' federal debt for water and sewer. This was related to the SVA's involvement in regional infrastructure.

Recommendations

- 1 The director of the Department of Commerce should ensure that the Division of Savannah Valley Development competitively bids consultant contracts whenever possible.
- 2 The director of the Department of Commerce should ensure that the Division of Savannah Valley Development's contracts contain adequate controls consistent with good business practices and state procurement guidelines.
- 3 The director of the Department of Commerce should ensure that the Division of Savannah Valley Development complies with §11-9-105 and that all consulting services are completed.
- 4 The director of the Department of Commerce should seek legal advice concerning any potential liability of the Savannah Valley Authority's consultants for tasks which were not completed.

Expenditures for Lobbying

We reviewed the Savannah Valley Authority's expenditures of state funds for lobbying from December 1990 through March 1993. We found that the authority paid about \$155,500 in fees and expenses for consultants to lobby state government. The authority also paid about \$169,500 in fees and expenses for consultants to lobby federal officials. The total cost, therefore, for the authority's lobbying activities was approximately \$325,000 for a 28-month period.

To determine these expenditures, we analyzed invoices from consultants as well as the SVA's lobbyist principal's disclosure statements filed with the Secretary of State. We determined which of the consultants' activities could be categorized as "lobbying" by applying the definition of lobbying found in the State Ethics Act. As amended by Act 248 (the "Ethics, Government Accountability, and Campaign Reform Act of 1991," effective January 1992), §2-17-10(12) states:

"Lobbying" means promoting or opposing through direct communication with public officials or public employees:

- (a) the introduction or enactment of legislation before the General Assembly or the committees or members of the General Assembly;
- (b) covered gubernatorial actions;
- (c) covered agency actions; or
- (d) consideration of the election or appointment of an individual to a public office elected or appointed by the General Assembly.

The statute also defines "legislation" broadly to mean "bills, resolutions, amendments, reports, legislative acts, vetoes, nominations, rules, and regulations pending or proposed in either the House or Senate . . . (and) any other matter which may be the subject of action by either house . . ." §2-17-10(10)

"Covered gubernatorial actions" means:

- (a) gubernatorial approval or veto of legislation;
 - (b) gubernatorial consideration or issuance of any executive order;
 - (c) gubernatorial consideration or making of any appointments or
 - (d) gubernatorial consideration of or the decision to award any grant derived from federal or other funds or from any source.
- §2-17-10(3)

The SVA paid The Fontaine Company for up to three registered lobbyists at a time at the state government level. Fontaine charged the SVA \$150 an hour plus expenses for the services of each lobbyist.

According to lobbyists' disclosure and registration forms, the SVA's lobbying involved the 1992 Appropriation Act, the capital improvements bond bill, the 1992 legislation that restructured the SVA board and increased the agency's authority, general state government restructuring and any legislation involving economic development.

Fontaine also maintained a subcontract with a consultant for the purpose of "rendering advice concerning marketing to the federal government." The cost of this subcontract was \$2,000 a month plus expenses and was paid by the SVA as part of the monthly invoices received from Fontaine.

SVA also had a direct contract with Kinghorn and Associates, a Washington, D.C., consulting firm for the purposes of advancing "the Authority's various activities in the governmental arenas of Washington, D.C., and in South Carolina" (see p. 15). The cost of this contract was \$1,500 a month plus expenses in FY 90-91 and \$2,000 a month plus expenses in FY 91-92 and FY 92-93.

In addition, the authority also paid another consultant \$1,000 to lobby the state Legislature in 1992.

We found several problems with the SVA's payments to lobbyists, as stated below.

State Funds Spent on Lobbying

From December 1990 through March 1993, the SVA spent approximately \$325,000 to lobby the state and federal government. The State Ethics Act does not restrict or limit the use of state funds for lobbying activities.

We surveyed six southeastern states to determine if they allowed the use of state funds for lobbying. One, the state of Florida, recently enacted legislation which prohibits the use of public funds to retain lobbyists. The Florida law allows full-time employees of state agencies to register as lobbyists and represent their agencies before the legislative or executive branch. It also allows agencies to hire lobbyists to represent them before the federal government. But the use of outside lobbyists to represent agencies before state government will be prohibited in Florida after July 1, 1994.

Although legal in South Carolina, the SVA's use of state funds for lobbying demonstrates questionable judgement in allocating its resources. For example, the authority's total expenditures for FY 91-92 were \$1.5 million; lobbying activities accounted for 10% of these funds.

It is unclear why SVA needed to maintain two or three registered lobbyists at a time in Columbia. The principal focus of its state lobbying activities was its own budget and enabling legislation. These concerns could have been handled by agency staff, instead of outside lobbyists at \$150 an hour, thus saving significant amounts in state funds. We also questioned the SVA's need to subcontract with a second consultant in Washington, D.C., when it already had a contract with a consultant there.

Disclosure of Lobbying Expenditures

We found a wide discrepancy between the amount reported by the SVA and the amount it actually paid its consultants for lobbying. The SVA underreported the amount it spent to lobby state government by more than \$91,000 in a 15-month period.

Section 2-17-40 requires state agencies that hire lobbyists to file disclosure statements with the Secretary of State twice a year. The ethics act transferred the duties and powers of the Secretary of State regarding lobbying to the State Ethics Commission as of July 1, 1993.

Agencies must report the income paid to lobbyists for their efforts and a complete and itemized account of all expenses incurred by lobbyists. (The law does not apply to lobbying federal or local governments.)

We reviewed the SVA's disclosure statements from January 1, 1992, (the date the revised ethics legislation went into effect) through March 15, 1993. The SVA reported spending \$36,700 during this period. We also reviewed the invoices and time sheets submitted by The Fontaine Company. The fees and expenses paid to Fontaine for state government lobbying totaled at least \$128,000 for the same period.

This \$128,000 was calculated based on the following:

- The total number of hours at \$150/hour that Fontaine employees billed the SVA for direct communication with members of the General Assembly, statewide constitutional officers, legislative committee staff, and governor's office staff.

- The time Fontaine employees billed the SVA for attending legislative committee meetings, going to the legislature, and studying specific legislation that was currently before the General Assembly.
- Any expenses attributable to state lobbying, including legislative information services, telephone calls, and copier supplies.
- The \$1,000 paid for some in-state lobbying by another consultant in 1992.

The SVA underreported the amount it spent to lobby state government by more than \$91,000 in 15-month period.

The executive director of the SVA stated that the amount he reported as lobbyists' income was based on the annual salary paid to the individual lobbyists, pro-rated to reflect the amount of time they spent on actual lobbying activities. The director also stated that contacts between registered lobbyists and public officials are not always lobbying, but can be for activities such as "information gathering" or "briefing legislators."

According to an opinion we requested from the Secretary of State, however, the SVA should have reported "all monies paid to any entity to perform lobbying services on the principal's behalf as "Income" paid to the lobbyist The clear intent of the statute was for each lobbyist's principal to report the full amount the entity spent on lobbying."

We also asked the Secretary of State for his opinion on the following question:

If a registered lobbyist communicates with a public official about general matters of interest to his or her principal (but is not directly promoting or opposing a specific piece of legislation) and charges a fee for the time spent, would your office view that activity as "lobbying" also?

In his opinion the Secretary of State wrote:

While it is theoretically possible for someone to be willing to pay another person to lobby "general matters" without those "matters" rising to the level of promoting or opposing legislation . . . this office has never seen such an instance. The statute was written in a broad manner so to include both promoting and opposing legislation. Therefore, there does not have to be a specific piece of legislation in existence for there to be lobbying activity

By not fully disclosing total amounts paid to The Fontaine Company for lobbying, the SVA was not in compliance with the stated intent of the ethics legislation, which is "complete and effective disclosure."

Identification of Lobbyists

Section 2-17-40 requires state agencies to report the "identification of each person to whom income attributable to the lobbyist's lobbying is paid . . . and the amount of the income . . . paid or promised." The SVA has reported a total of five individuals receiving income from lobbying in its disclosure statements to the Secretary of State.

The SVA paid The Fontaine Company for the lobbying activities of two other individuals who were not identified by the SVA as lobbyists. One individual who was not listed or registered as a lobbyist was paid by the SVA for 23 hours of direct contact with legislators and members of the governor's staff after January 1, 1992. A second individual, who dropped his registration as a lobbyist in July 1992, nonetheless was paid by the SVA for about nine hours spent in direct contact with state officials and legislators after that date.

By failing to disclose all the consultants it has paid to lobby government officials, the SVA was not in compliance with the intent of ethics legislation.

Recommendations

- 5 The director of the Department of Commerce should consider using agency staff, instead of hiring private sector lobbyists, to handle agency concerns with the General Assembly.
- 6 The General Assembly may wish to consider enacting legislation which would prohibit state agencies from using public funds to hire outside lobbyists to represent them before the legislative and executive branches of state government.
- 7 The director of the Department of Commerce should evaluate the cost-effectiveness of any contracts with Washington, D.C., consultants to lobby on behalf of the Division of Savannah Valley Development.

- 8 The director of the Department of Commerce should ensure that all expenditures for lobbying are reported accurately in compliance with the requirements of the state ethics law.

Computer Model Funding

The Savannah Valley Authority paid the South Carolina Water Resources Commission \$385,000 for a computer model of the Savannah River lake system which has not been completed. SVA has not ensured that the model will be completed or required appropriate accountability for the use of its resources.

In August 1988, the Water Resources Commission requested \$75,000 from SVA to develop a computer model of the Savannah River. The Savannah River lake system is controlled by the United States Army Corps of Engineers (COE). COE had been criticized for its management of lake levels during droughts of 1987-88. The model would be used to negotiate acceptable river and lake uses with the COE, Georgia, and others. The SVA board approved the \$75,000 request after being informed by the water resources director that his agency would provide approximately \$400,000 plus staff costs for the project. The SVA board subsequently approved spending a total of \$385,000 for the proposed model from FY 88-89 through FY 91-92.

There was no written agreement between the SVA and water resources which defined each agency's responsibility for funding or ensured that the product would be completed. After a competitive bidding process, water resources contracted with two private firms to develop the model. The project was originally scheduled for completion by September 1990, at a price of about \$467,000. Errors in some data necessitated a reworking of some portions of the model. As of June 1993, the model was incomplete. No substantive work had been performed by the contractor since April 1992. Water resources officials stated that the model will be completed.

The SVA has provided the majority of the funds for the proposed computer model. Although the Water Resources Commission initially informed the SVA that it would contribute \$400,000 and four full-time staff for FY 88-89, the commission's total contribution through June 1993 has been approximately \$23,000 and staff costs. According to water

resources officials, the commission used approximately one FTE for FY 89-90 through FY 91-92 for the project.

We found no evidence that the SVA exercised appropriate control over the results of its expenditures. We also found no evidence that the SVA evaluated the need to contribute \$385,000 toward the proposed computer model versus the need for other projects to carry out its mission in the region.

Recommendation

- 9 The director of the Department of Commerce should ensure that the Division of Savannah Valley Development obtains written agreements specifying terms and responsibilities for all external funding arrangements.

Savannah Valley Authority Board

We reviewed the Savannah Valley Authority's compliance with requirements related to meetings of public bodies as mandated by the Freedom of Information Act (FOIA) and state ethics provisions relating to board member conduct. We reviewed board minutes and board member statement of economic interests forms filed with the State Ethics Commission. We found only partial compliance with the FOIA as discussed below.

Freedom of Information Act

The authority's board minutes, from FY 89-90 through May 1993, and notification procedures provided evidence that regular board meetings generally followed FOIA notification and open meeting requirements. However, we identified some exceptions:

- On at least two occasions actions taken by the board were not documented in the minutes. Section 30-4-90 of the South Carolina Code of Laws provides that the minutes be complete in terms of matters discussed and votes or action taken. However, action on both the commitment and final settlement with a company being considered for investment of capital improvement bond funds (see p. 33) was not documented in board minutes. There is some evidence that action on

the final settlement was taken during executive session. Section 30-4-70 provides that no vote may be taken in executive session.

- The SVA did not always comply with FOIA notification requirements for committee meetings. Section 30-4-80 requires that the public be notified of these meetings as well as regularly scheduled board meetings. The SVA board has established an executive committee, an operations committee, a bylaws committee, and an ad hoc committee to review the potential use of capital improvement bond funds. The executive director stated that until recently, he thought public notification for any meeting that did not involve a quorum was not necessary. We found no evidence of notification of committee meetings before April 1993.
- The authority has taken votes by polling the board members individually, with the votes later ratified by the full board. This procedure, although permitted by SVA's bylaws, does not comply with the FOIA, according to an opinion of the Attorney General's office. The opinion concludes that votes taken by polling board members individually works against the principle of collective action by public bodies as set forth in general law and upheld by the FOIA.

Compliance with the FOIA helps ensure that citizens have access to information on the manner in which elected or appointed officials conduct public business.

Personnel Management and Policies

We reviewed the Savannah Valley Authority's personnel policies and management. Prior to July 1992, state statutes and regulations governing state employees applied also to SVA employees.

The 1992 amendments to the authority's legislation changed the status of its employees. SVA employees could be employed and dismissed at will, and they would no longer be considered state employees except for participation in the state retirement and health insurance systems. The SVA board was given independent authority over personnel actions such as pay raises, promotions, hirings and dismissals.

In addition, since July 1992, the executive director's position was no longer subject to review by the Agency Head Salary Commission. In its

first board meeting under this new status, the board approved a 34% increase in the executive director's salary, from \$50,495 to \$67,500 (effective October 1992).

The 1992 legislation provided that the board could contract with the Division of Human Resource Management (DHRM) to "establish a comprehensive human resource management program" (§13-9-30). The board did not do so, but during FY 92-93 was in the process of drafting its own personnel policies. However, no policies were approved by the board. Therefore, we could not determine if the authority's employees were covered by any personnel policies during this time.

In reviewing the SVA's personnel files, we found no evidence that the executive director conducted performance evaluations for any of the SVA's seven other employees since June 1987. The files also contained only one agency head performance appraisal, dated June 1991. DHRM regulations, applicable to SVA prior to July 1992, require an approved employee performance management system that provides for regular employee evaluations.

The legislation restructuring the SVA as a division of the Department of Commerce did not change the employees' status. However, it transferred the board's authority in personnel matters to the director of the Department of Commerce.

Recommendation

- 10 The director of the Department of Commerce should ensure that the Division of Savannah Valley Development is governed by appropriate personnel policies.

Accounting Policies

We reviewed Savannah Valley Authority's compliance with §13-9-140 of the South Carolina Code of Laws, as amended in July 1992, which requires that the authority's funds be deposited and paid out in accordance with policies established by the board. We could find no evidence that the board established policies for the management of the authority's funds.

In FY 92-93, the SVA left the Comptroller General's accounting system (except for payroll) and implemented its own system. We examined the procedures manual for SVA's accounting system. However, we could find no evidence that the board approved the system or the manual.

The State Auditor's office is conducting a financial audit of the SVA for FY 90-91 and FY 91-92. According to an official of that office, however, the authority is responsible for arranging for its own audit for FY 92-93. As of July 1, 1993, this had not been done.

Timely Deposit

In the course of our audit, we noted three instances in FY 92-93 when the authority did not deposit funds on a timely basis. Timely deposit of funds is an important procedure for maintaining control over cash. One check for \$50,000 dated October 1992 was not deposited until January 1993. Two other checks, dated January 22 and May 3, 1993, received as refunds from The Fontaine Company, had not been deposited as of May 27, 1993.

Recommendations

- 11 The director of the Department of Commerce should ensure that a financial audit of the Savannah Valley Authority is completed for FY 92-93.
- 12 The director of the Department of Commerce should ensure that the Division of Savannah Valley Development deposits funds in a timely manner.

Vehicle and Equipment Management

The Savannah Valley Authority (SVA) has not kept use records for its automobiles. As of June 30, 1993, the authority had four automobiles and a total staff of six employees. Three cars are for general agency use; the other is assigned to the executive director. We attempted to evaluate the use of these vehicles; however, no use records were available.

Section 1-11-280 of the South Carolina Code of Laws (Motor Vehicle Management Act) requires agencies to keep use records for their motor pool vehicles. Without these records, SVA has no evidence that its vehicles are needed and inadequate controls to ensure that they are used appropriately.

Pontoon Boat

SVA also owns a pontoon boat, motor and trailer. According to an SVA official, the boat was used extensively during the development phase of the Savannah Lakes Village project, but is no longer used regularly. We could not evaluate SVA's need for the boat because no use records are kept. According to an SVA official, the boat cost the SVA approximately \$200 in FY 92-93 to operate, maintain and insure. The boat may no longer be needed.

Recommendations

- 13 The director of the Department of Commerce should ensure that the Division of Savannah Valley Development implements and maintains vehicle use records.
- 14 The director of the Department of Commerce should determine if the Division of Savannah Valley Development needs its boat. If no longer needed, the boat should be disposed of as required by the South Carolina Code of Laws.

Travel Expenditures

We reviewed the Savannah Valley Authority's expenditures for staff and board travel from July 1990 through May 1993. We inspected all travel vouchers greater than \$100 from this period to determine if the authority complied with applicable laws and regulations. We identified no material noncompliance with the travel laws and regulations.

Chapter 2
Administrative and Contract Management

Project Management

Lake Richard B. Russell Project

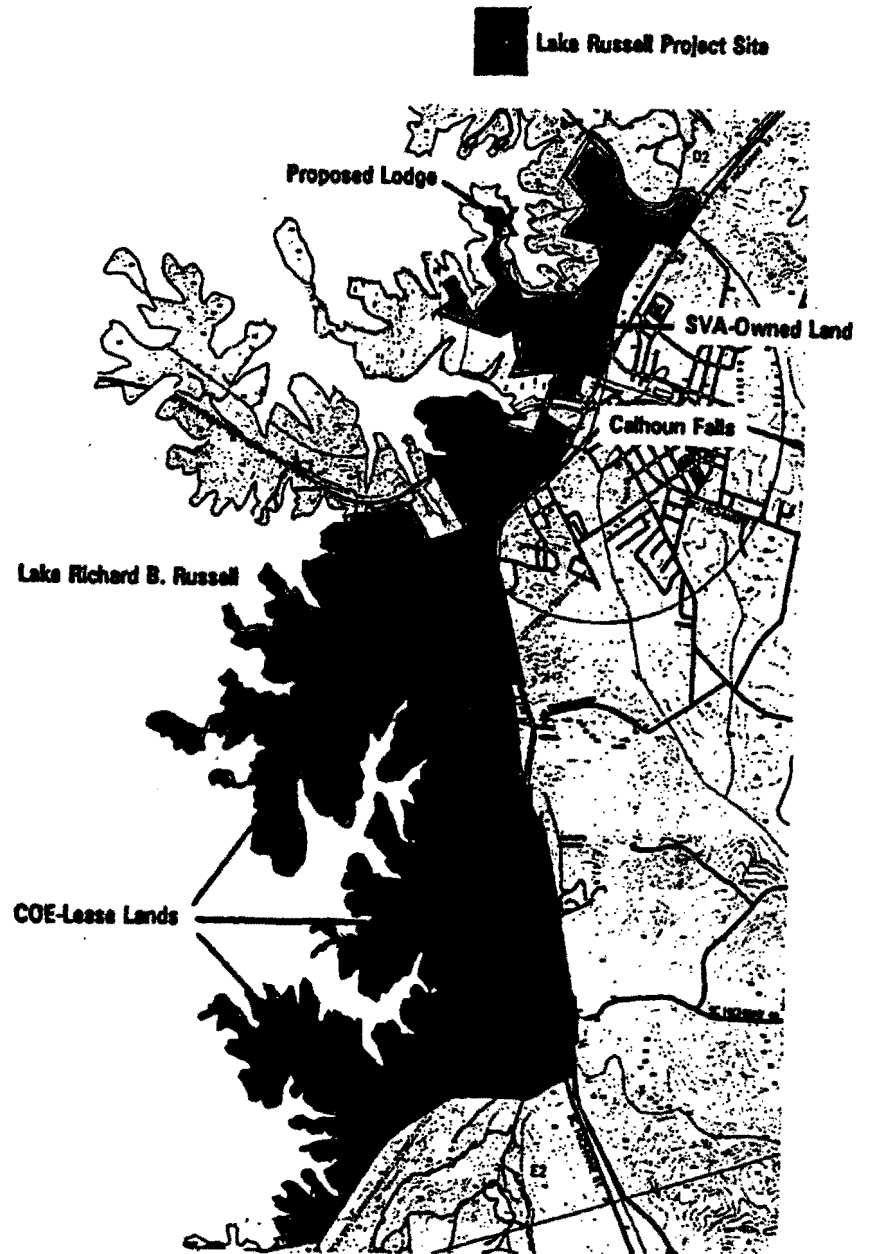
The Savannah Valley Authority has a major ongoing project at Lake Richard B. Russell. This project encompasses approximately 3,300 acres adjacent to Lake Russell and the town of Calhoun Falls in Abbeville County (see Figure 3.1).

Background

The authority envisions a "mixed-use" development for the project site, which potentially could include a lodge/hotel, restaurant, residential and commercial areas, office buildings, golf courses and other recreational amenities. Briefly, the history of the SVA's efforts to develop the Lake Russell project includes the following:

- In 1989, the SVA entered into negotiations with the U.S. Army Corps of Engineers (COE) to obtain a 99-year lease on property currently leased to the S.C. Department of Parks, Recreation and Tourism. This property consists of three large parcels of lakefront land that encompass the southern portion of the planned development site.
- In 1990, the SVA commissioned an overall development strategy from Edward Pinckney/Associates, Ltd., a Charleston landscape architecture and planning firm. The firm's comprehensive report covered the entire 3,339-acre proposed site, and included environmental studies, site analysis, and land use alternatives.
- In addition to the COE-lease land, the SVA identified several tracts of privately-owned property as part of the project site. In four separate transactions from 1990 to 1993, it purchased a total of 1,094 acres for \$919,575.
- Through its consultants, the SVA pursued negotiations with federal officials to locate a federal research facility near Calhoun Falls, and to obtain federal funding for regional infrastructure. The authority envisioned that the federal facility would "anchor" future development within the project site.
- The Fontaine Company conducted a marketing analysis on the feasibility of building a lodge and recreational facility on the land purchased by the SVA. (This analysis incorporated the survey of hunters and fishermen discussed on page 10). The consulting firm

Figure 3.1: Lake Russell Project Site



also developed fiscal projections for various development components, and through various subcontractors, produced more environmental studies and engineering designs focusing on the SVA-owned portion of the development site.

SVA costs involving the Lake Russell project since 1989 amount to at least \$2.9 million as Table 3.1 shows. This estimate does not include SVA's own staff time, overhead and legal costs for the project.

**Table 3.1: SVA Investment in
Lake Russell Project 1990-1993**

Land Costs	\$919,575
Edward Pinckney/Associates	\$317,994
The Fontaine Company	\$1,566,348
Kinghorn and Associates	\$68,807
Total	\$2,872,724

As of July 1, 1993, the development of Lake Russell was still in the planning stages. The lease with the Corps of Engineers has not been finalized (although this is expected to take place in 1993). The federal government has not made any commitments to the SVA for a federal facility or funding. No formal proposals for developers to initiate actual projects have been issued.

SVA Management of Lake Russell Development

We reviewed SVA's planning and management for the Lake Russell project, and progress made toward development as of July 1993. We identified several issues, as follows:

Project Implementation Plan

As discussed on page 10, the SVA did not require The Fontaine Company to fully complete the services listed by contract. The contract specified that, for the Lake Russell development project, the consulting firm would

prepare a "Project Implementation Plan for approval by the SVA." Components of the plan were to include a detailed funding plan for infrastructure, a detailed land plan, draft development agreements, and appropriate covenants and restrictions. After 2.5 years and \$1.5 million, no implementation plan exists for the entire development site. As of July 1, 1993, the only master plan for the total Lake Russell project is the original development strategy published by the Pinckney firm in August 1991.

Instead, the SVA directed Fontaine to focus on a small portion of the development (a proposed lodge) and on trying to attract a federal research facility to Calhoun Falls.

Focus of Planning

A proposal for the 100-room lodge and recreational complex, to be located on land the authority presently owns, is the major product of the \$1.5 million paid to The Fontaine Company for a project implementation plan. Fontaine prepared financial and market analyses, and coordinated the hunters' survey, engineering, environmental studies and site design performed by subcontractors. These planning activities concerned primarily the lodge site and surrounding acreage owned by SVA.

We identified two problems with this emphasis. First, the authority devoted considerable resources to planning for the lodge without any assurance that the lodge would be built. These funds might have been better spent if the authority had first determined what, and where, private developers were interested in building.

Second, the SVA's focus on the proposed lodge was the result of its belief that it needed to be self-supporting (see p. 6). The SVA directed Fontaine to plan for the lodge complex because the authority needed a source of income in order to exist without a state appropriation.

The SVA's development strategy, therefore, was based on its need for income rather than on an overall development plan. This decision must now be reevaluated in light of the SVA's restructuring as a division of the Department of Commerce.

Planned Use of State Funds for Lodge

In January 1993, Fontaine presented a plan to the board for the \$6.5 million lodge and recreation complex. This plan envisioned that construction of the lodge would be financed with state bond funds, nonrecurring state appropriations, state or federal grants, and SVA funds already available. Using this method of financing, the initial projections assumed that the lodge would net the authority about \$500,000 in income annually. However, using state bonds or appropriations for the lodge would put state funds at risk if the venture were unsuccessful.

The SVA board did not come to a decision on whether to use state funds to build the lodge. At its last meeting in June 1993, the board voted to send request for proposals (RFPs) to see if any private developers would be interested in the Lake Russell project.

Recommendation

- 15 If the director of the Department of Commerce decides to proceed with development on Lake Russell, he should ensure that the state gains a positive economic benefit from the more than \$2.9 million already invested in the Lake Russell project.

Aiken County Capital Improvement Bonds

The Savannah Valley Authority was authorized by the 1991 bond bill (1992 Act 522) to use \$4.5 million in capital improvement bonds to promote economic development in Aiken County. We reviewed the use of the bond funds through May 1993 and found the SVA to be in compliance with the legislative mandate and state procedural requirements. However, we identified some problems with SVA's management of one proposed commitment of the bond funds.

The bond bill authorized the general use of bond proceeds for an "Aiken County Project," and did not specify any particular project. The authorization did not place restrictions on any revenue realized from the use of the bond funds.

The authority considered several projects as potential investments for the bond funds. The first use of the funds did not occur until March 1993.

Approximately \$1.5 million was committed to the purchase and renovation of a building leased to a food processing company locating in Aiken County. The authority planned to use the remaining funds for a land mapping project, the purchase of additional land, and new construction in Aiken County.

We reviewed two prior projects considered by SVA for use of the bond funds. The project for which the SVA originally intended to use the funds never reached the implementation stage. The company involved was depending on federal government commitments which did not occur. The other project ended in a contractual dispute and financial settlement of \$50,000 paid by the authority.

SVA had committed to lend \$3.5 million in bond funds for construction and equipment to Ameriglove, Inc., a start-up manufacturing company that would locate in Aiken County. The authority terminated its commitment to Ameriglove, based on a potential delay in obtaining the bond funds. The company did not accept the validity of SVA's reason for withdrawing from the commitment. The SVA perceived a threat of litigation and, after legal consultation, paid a settlement of \$50,000 to the company.

Settlement Authority

We concluded that the SVA had the statutory authority to settle a contract dispute without the approval of another public entity. We also reviewed a legal memorandum prepared for the board which concluded that the board had sufficient reason to avoid the prospect of litigation by negotiating a settlement. However, we identified problems with SVA's management of its commitment to the company as discussed below.

Accountability for Management Decisions

The SVA's management of its commitment to Ameriglove illustrates problems with accountability for the authority's actions. Because the executive director and the board did not comply with board bylaws and did not properly document decisions, there was inadequate evidence of proper authorization for SVA's actions.

Section VIII.D of the board's bylaws states: "Any votes dealing with the purchase or disposal of real property or the exercise of SVA's authority to borrow or lend funds must be approved by a majority of the full Board."

We identified problems with all phases of SVA's dealings with Ameriglove.

Action to Commit

According to the executive director, SVA's attorneys drafted the letter of commitment. We could obtain no documentation that the board authorized the initial commitment or approved the letter.

Action to Withdraw From Commitment

After an unsuccessful attempt to call an emergency board meeting, the executive director exercised SVA's option to withdraw from the commitment. We found no evidence that the board voted to withdraw.

Settlement Authority

There was no evidence in the board minutes that SVA's attorney was authorized to negotiate a settlement with Ameriglove. The executive director stated that he and the attorney polled the board members about the settlement, but he was unable to produce documentation of the poll.

Settlement Acceptance

The mutual release and settlement of the contract dispute was signed by the executive director without documentation of authorization from the board. The board did not formally ratify the settlement until several months after it occurred.

Board members disagreed in their recollection of several issues.

Improper documentation for board decisions weakens accountability by making it impossible to trace the decision-making process. We surveyed the board members about their recollections of the actions related to this loan commitment. We found that they disagreed on several important issues. Two members recalled that the board needed more information before making a commitment; at least one recalled approving a letter of commitment. Later, when the threat of litigation against SVA appeared likely, board members agreed that they instructed the board's attorney to negotiate with Ameriglove. They disagreed, however, on the limits of the attorney's authority: some interpreted it as an exploration of what would be acceptable to the company in settlement of the dispute; others understood that the board authorized a firm settlement up to a specified amount of money. Such a variation in understanding relative to these critical decisions weakens the board's accountability for its actions.

SVA's actions in the course of this commitment provide little assurance that the state's resources have been well-managed. While there is inadequate evidence to conclude that the \$50,000 settlement could have been avoided, proper documentation of decision-making procedures would improve accountability and clarify the justification and responsibility for the authority's actions.

Contingency Pay Arrangement

Another problem related to the commitment with Ameriglove was the role played by SVA's consulting firm, The Fontaine Company. The SVA allowed a method of payment for this particular project that did not comply with Fontaine's written contract. This had the appearance of creating a conflict of interest.

The Fontaine contract specified that payment for the firm's services was to be on an hourly basis and not contingent on the success of any given project. From December 1990 to December 1992, SVA paid the consulting firm nearly \$163,000 for 1,065 hours of work and expenses related to use of the Aiken County bond funds. As of June 1992, SVA had not used any of the Aiken County bond money. At that time, The Fontaine Company requested that the board make a commitment to Ameriglove. According to SVA's executive director, however, the consultant made a verbal agreement that his firm, rather than charging its regular hourly rate for this project, would receive a payment of \$70,000 at the time of the closing with the company. (Since there was no closing, this money was not paid.)

This contingency pay arrangement was not in accordance with the written contract with The Fontaine Company. Furthermore, the contract states that "This agreement . . . constitute(s) the entire agreement (of) the parties . . ." and "may be modified only in writing . . ." We could obtain no written documentation of either the fee arrangement or its authorization by the board.

The source of the promised \$70,000 payment was also not clearly understood. The executive director stated that Ameriglove would pay Fontaine. In our survey, however, some board members stated they were not sure who would make the payment. One stated he thought both SVA and Ameriglove would be paying the consultant. The payment, regardless of source, was to be based on the success of the commitment. In these circumstances, a consultant's ability to provide objective advice could be questioned. Likewise, it could be difficult for SVA board members to

properly evaluate the advice given by their consulting firm regarding the worthiness of the commitment.

Recommendation

- 16 The director of the Department of Commerce should ensure that all contracts entered into by the Division for Savannah Valley Development for consulting services are in writing and contain complete information on fee arrangements. Payment to consultants should be only in accordance with the written contract.
-

Savannah Lakes Village

The Savannah Valley Authority was created (as Clark's Hill Authority) to deal with the impacts of the construction of Lake Thurmond (then the Clark's Hill Lake) by the U. S. Army Corps of Engineers. The authority formulated an overall development plan to obtain the release of a significant amount of property on the lake from the federal government for the development of a recreation-oriented residential community. In 1986, the SVA purchased more than 3,100 acres of undeveloped timberland in the vicinity of Lake Thurmond from the federal government.

Savannah Lakes Village was undertaken jointly by SVA and a private development company, Cooper Communities, Inc. Cooper purchased the former federal land, valued at approximately \$6.4 million, from the authority for approximately \$1.68 million in 1988. The difference, approximately \$4.75 million, was considered economic development assistance. SVA granted an additional \$3.3 million to the project for roads, water, and sewer systems. The development is marketed as a retirement/recreational development, primarily consisting of single family homes and other amenities, including a golf course. Completion of the project construction was originally scheduled for 1996.

The SVA has an ongoing involvement with Savannah Lakes Village. The terms of the relationship are specified in a series of agreements between Cooper, McCormick County, and the SVA. We reviewed selected management issues relating to the SVA's role in the Savannah Lakes Village development. We did not review the overall impact of the development or its cost/benefit to the state. The State Development Board (now the Division of State Development of the Department of Commerce)

is studying these issues. We reviewed the SVA's financing of the water, sewer and road construction for the project, a 1992 change in the Design/Build agreement, and agreements regarding timber cutting on the Savannah Lakes Village property. Discussion of these areas follows.

Insurance Reserve Fund Loan

The SVA's primary continuing involvement with Savannah Lakes Village is through the financing of roads, water, and sewer (infrastructure) for the project. Act 210 of 1987 required the Budget and Control Board, through the Insurance Reserve Fund, to purchase up to \$20 million of SVA notes to finance the infrastructure for Savannah Lakes Village. The authority can borrow up to \$3.5 million in any one year, must pay 8% interest and must repay the principal within 30 years.

The SVA lends these funds to McCormick County, which then pays Cooper for the road, water, and sewer work completed. As of January 28, 1993, SVA had borrowed \$7,355,865 from the Insurance Reserve Fund for this project. We reviewed this financing arrangement to determine its effect on the state and whether SVA has appropriately managed the transactions to date.

These loans are being repaid from a special tax imposed on Savannah Lakes Village property owners. The current tax is \$30 per month per "special tax unit" (a residential lot or commercial equivalent unit). The tax can be increased by McCormick County if more funds are needed to meet the required debt service schedule. From January 1990 through February 1993, the total tax which should have been collected was \$1,991,760. According to the State Treasurer's office (trustee for the loans), the total tax remitted to the state was \$2,009,852. The small overpayment (\$18,092) results from a combination of prepayments, late payments, and late payment penalties collected.

We analyzed the adequacy of the current tax to meet the debt service schedule. Our analysis assumed that the remaining loan funds (\$12.64 million) will be borrowed according to the original project development schedule, and that special tax collections will be invested to earn a conservative return. We concluded that the current special tax should be adequate to meet the debt service schedule, unless tax delinquencies rise significantly or investment returns drop significantly.

We interviewed officials of the State Treasurer's office and the Insurance Reserve Fund to determine what effects these loans may have on other state agencies' insurance premiums or ability to borrow from the Insurance Reserve Fund. The loans are an investment of the Insurance Reserve Fund. Fund officials consider the 8% interest earned on these loans to be a good rate in the current economy.

The loans are not as "liquid" as other fund investments. This could become a problem if the amount of insurance claims made on the fund caused the fund to have to sell the loans. According to fund officials, this lack of liquidity is not normally a factor in determining the rates that agencies pay for insurance. However, if the Insurance Reserve Fund determined that there was a need for additional liquid surplus funds, it might increase agencies' rates for this purpose.

Insurance Coverage

The Savannah Valley Authority has not provided insurance coverage for the water and sewer system as required by its loan agreement with the Budget and Control Board. Section 5.09 of the agreement states:

Throughout the term of this agreement, the Issuer [SVA] shall cause the system to be continuously insured against such risks as are customarily insured against by businesses of like size and type, paying as same become due all premiums in respect thereto. Such insurance shall be in the amount required by and in form and substance satisfactory to the Trustee [State Treasurer].

The agreement requires SVA to insure not only the water and sewer at Savannah Lakes Village, but all of the existing county water and sewer system as well. According to officials of McCormick County, which owns the system, only general liability coverage is in place. According to an official of the Insurance Reserve Fund, most water and sewer authorities in South Carolina insure their systems against damage from a variety of threats. The McCormick County system has not had this type of coverage since 1986.

According to a McCormick County official, the county pays to repair any damages as they occur.

Audited Financial Reports

The Savannah Valley Authority has not provided audited financial reports of the county water and sewer system to the trustee as required by the loan agreement. Section 5.12 of the agreement requires the authority to send audited financial reports of the system to the trustee within 120 days of the end of the fiscal year.

According to an official of the Treasurer's office [trustee], they had received no audited reports on the system within the 120-day period. In April 1993, the SVA forwarded audited financial reports to the Treasurer covering the years ended June 30, 1990 and 1991. The 1992 report had not been received as of May 1993. According to an official of the authority, they believed the county was sending these reports.

Financing Statement

The Savannah Valley Authority has not filed a financing statement with the Secretary of State as required by the loan agreement. Section 7.01 requires the SVA to file a financing statement with the secretary's office. This statement protects the state's interest in receiving the special tax payments. According to the Secretary of State's office, no financing statement had been filed as of April 27, 1993.

Recommendations

- 17 The director of the Department of Commerce should ensure that the Division of Savannah Valley Development, with the concurrence of the State Treasurer's office, insures the McCormick County water and sewer system against risks normally associated with a like business.
- 18 The director of the Department of Commerce should ensure that the Division of Savannah Valley Development sends audited financial reports of the water and sewer system to the State Treasurer's office within 120 days of the fiscal year-end.
- 19 The director of the Department of Commerce should ensure that the Division of Savannah Valley Development files the required financing statement with the Secretary of State's office.

Contract Changes

The agreements between the SVA, McCormick County, and Cooper Communities, Inc., were signed in November 1988. Since that time, there have been several changes to the agreements. We reviewed these changes to determine their effect on SVA and the state. We concluded that the changes should have no detrimental effect on the state's or SVA's interest in the Savannah Lakes Village project. However, we could find no evidence that SVA's board approved some of the changes.

Changes to the Design/Build Agreement

The design/build agreement between the SVA, McCormick County, and Cooper describes the terms for construction of the roads, water, and sewer systems in the village. An addendum to the agreement which changes several provisions of the contract was executed in November 1992.

Changes to the agreements should have no detrimental effect on the state's interest.

In the original agreement, SVA was designated as the on-site project representative for McCormick County. As such, the SVA was responsible for record keeping, inspections, and certifying the accuracy of payment applications submitted by Cooper Communities to the county. The addendum gives this responsibility to the county's staff engineer. However, SVA retains the right to review the project records and inspect the project as it deems necessary. According to SVA's executive director, the authority sought this change so that the county would assume more responsibility for the project.

We concluded that this change is not inappropriate since the county has an interest in the proper completion of the project, and the county will own and operate the water and sewer systems.

A second change extends the time for completion of the original 5,100 lots by four years. The original design/build agreement required Cooper to complete construction of 5,100 residential lots and commercial equivalents within eight years of closing on the project. There was no provision for additional lots, or additional compensation for additional lots.

The addendum also provides Cooper with a schedule for developing 1,500 additional lots over four more years. Originally, 5,100 lots would be completed by the end of 1996. After this change, 6,600 lots could be completed by the year 2006. Furthermore, the change provides that SVA may have to finance the additional lots.

Extension of the original completion date may require the Insurance Reserve Fund to make its loans available for the extended period. Depending on future economic conditions, loans to the SVA during the extension period may not be in the best interest of the fund. SVA has not sought, nor is it required to seek the approval of the Insurance Reserve Fund or the State Treasurer for this extension.

According to SVA's executive director, the extension was sought by the developer. SVA had always believed that eight years was an optimistic projection and was not surprised by the request. SVA viewed this as an opportunity to negotiate some beneficial changes to the agreement (see below).

Other changes include a promise by all parties to seek alternative financing for the project infrastructure and an upgrade in the street paving specifications.

We could find no evidence that, based on current conditions, any of the changes have a detrimental effect on the state's or SVA's interest in the project.

Timber Cutting on Undeveloped Lands of Savannah Lakes Village

The original land purchase contract and development agreement between the SVA and Cooper Communities prohibited the commercial harvesting of timber on undeveloped lands of the project.

In July 1989, Cooper requested permission to "thin" trees on a 20-acre test plot. If the test results met the SVA's approval, the SVA board of directors could approve an additional 780 acres for thinning. The SVA board of directors approved the request on the condition that not more than 30% of the timber be removed from the land. They also required a report from a registered forester describing the results when the test was completed. All money from the sale of timber was to be paid to the Savannah Lakes Village property owners' association.

The test thinning was completed by November 1989, and the SVA board approved thinning of the remaining 780 acres in December 1989. In August 1990, the SVA board approved thinning the remaining 1,500 undeveloped acres. The conditions imposed on the test thinning remained in force.

According to Cooper, timber sales exceeded \$1.2 million as of September 1992. SVA received \$50,000 from the timber sales, and various local agencies were to receive a total of \$50,000. Approximately \$1.074 million was paid to the Savannah Lakes Village property owners' association. According to the executive director, the money paid to SVA was negotiated in exchange for the addendum to the design/build agreement discussed earlier. He stated that SVA will use the \$50,000 to pay for a McCormick County development strategy. We concluded that the timber thinning agreements and the payment to SVA were not inappropriate.

Board Approval for Contract Changes

We could find no evidence that some of the contract changes discussed above were approved by the SVA board.

As discussed, the addendum to the design/build agreement included several contract changes. According to the minutes of the August and September 1992 board meetings, the board approved only the extension of the original construction schedule. There is no record of approval of the other addendum items. The executive director stated that all of the changes were approved by the board, though the minutes of the board meetings do not reflect this.

Board Approval for Additional Timber Thinning

The chairman of the SVA board authorized the developer to thin timber on 780 acres without board approval. The board approved a test plot of 20 acres in July 1989, and was to review the test results prior to issuing permission to thin additional acreage. A November 1989 forester's report on the test indicated that the thinning operation was successful. In December 1989, the board approved thinning an additional 780 acres. However, the documentation provided to us indicated that the board chairman had signed a release authorizing the additional 780 acres on October 27, 1989, two months prior to board approval.

Savannah Lakes Regional Loan Fund

The Savannah Lakes Regional Loan Fund was established in November 1989 to make loans to businesses which would create jobs in the jurisdiction of the Savannah Valley Authority. The fund was created from an unrestricted payment of \$1 million by the Savannah Lakes Village property owners' association to the SVA. In January 1990, SVA and the South Carolina Jobs Economic Development Authority (JEDA) formed a nonprofit corporation to manage the fund. We reviewed the management of the regional loan fund.

From January 1990 through April 1993, the fund made one loan of \$150,000. Two other loans of \$150,000 each had been approved but not distributed to the borrowers. The low number of loans may indicate that the fund's marketing efforts have been ineffective. According to an SVA official, the fund has not been advertised. Marketing has primarily been discussions between the SVA and local bankers, and small business groups. However, according to SVA, the three loans are expected to result in the creation of 108 jobs and total investment in the region of approximately \$3.6 million. SVA officials stated that the fund has been effective.

The fund had net earnings of approximately \$165,000 through April 30, 1993. Payments to JEDA of \$18,000 for administrative services (\$500 per month) were the single largest expense of the fund. Given the low activity of the fund, it could be questioned whether this administrative arrangement has been warranted.

Termination of the Fund

SVA has notified JEDA of its intent to dissolve the fund. Under the agreement between the two agencies, the assets of the fund revert to the SVA should either decide to terminate the fund. As of April 30, 1993, the fund had cash and short-term investments of \$1,092,679. After distributing the \$300,000 committed to loans, the fund will have in excess of \$790,000 cash and short-term investments remaining.

As of May 1993, the SVA was awaiting the disposition of the two outstanding loan commitments before taking final action. Terminating the fund was a business decision to ensure SVA's flexibility in using its funds. According to SVA's executive director, the money remaining in the fund may be used for the Lake Russell project.

SVA's termination of the loan fund does not violate any conditions of the payment from the property owners' association, or any state laws. However, the fund has earned a profit, and may have achieved some success in bringing jobs to the Savannah River area. It is possible that increased marketing efforts could improve the loan fund's performance.

Recommendation

- 20 The director of the Department of Commerce should consider the most appropriate use of the resources from the Savannah Lakes Regional Loan Fund. Should the director decide to reconstitute the fund, (1) increased emphasis should be placed on marketing the fund to potential borrowers, and (2) administrative fees paid to JEDA should be based on fund activity.

Hampton County Project

We reviewed Savannah Valley Authority's compliance with provisos in appropriations for FY 89-90 and FY 90-91, which required that funds appropriated to the authority for the "Hampton Project" were to be expended at the direction of the Hampton County Industrial Development Commission.

The General Assembly designated SVA as the pass-through agency for approximately \$2.7 million intended for a development project in Hampton County. We examined written agreements between SVA and the Hampton County Industrial Development Commission related to the use of these funds. We also examined SVA vouchers documenting the disbursement of the funds to the commission.

The SVA acted in accordance with its role as fiscal agent for appropriated funds for Hampton County.

Chapter 3
Project Management

Agency Comments

**Appendix
Agency Comments**




SOUTH CAROLINA
DEPARTMENT OF COMMERCE

Wayne L. Sterling
Interim Director

MEMORANDUM

DATE: September 20, 1993

TO: George Schroeder, Director
Legislative Audit Council

FROM: Wayne L. Sterling 

SUBJECT: Response to Your Report on the Savannah Valley Authority

The Department of Commerce appreciates the work the Legislative Audit Council did in preparing this extensive report. It will be of tremendous assistance to us as we continue the task of managing the future efforts of the former Savannah Valley Authority, which as of July 1, 1993 became the Division of Savannah Valley Development, Department of Commerce.

We will carefully review each recommendation made in your report to ensure that the State obtains the maximum benefit from your fine efforts.

Our initial response to each of your recommendations follows.

- 1 Competitive bidding will be used on all future contracts, whenever possible. If there is any doubt as to whether it is possible, the Department of Commerce will err on the side of caution and attempt to solicit competitive bids.
- 2 All future contracts will fully comply with the procurement code. Even though the Savannah Valley Authority (and thus the Division of Savannah Valley Development of the Department of Commerce) was generally exempted from the procurement code in the last major changes to their legislation in 1992, staff has been instructed to fully comply with the code in all procurement matters.
- 3 Code § 11-9-105 will be complied with in all future contracts.
- 4 This is a complex issue that will be thoroughly reviewed by the Department of Commerce before deciding what action, if any, to take.

- 5 Presently, there are no lobbyists employed by the Division of Savannah Valley Development. As one of the first actions under the restructuring as of July 1, 1993, all divisions of the Department of Commerce were directed to immediately terminate any lobbying arrangements. The Department of Commerce, as a matter of policy, does not retain lobbyists for any purpose. If, in the future, this changes, we will work with the appropriate personnel at the Ethics Commission and/or the Secretary of State, as appropriate, to ensure proper reporting procedures are in place.
- 6 No response necessary by the Department of Commerce, as this is a recommendation you have made for the Legislature to consider.
- 7 See number 5 above. The Department of Commerce, as a matter of policy, does not retain lobbyists for any purpose.
- 8 Not Applicable for future periods - see number 5 above.
- 9 The Department of Commerce will fully comply with this recommendation.
- 10 The Department of Commerce will fully comply with this recommendation.
- 11 This is in process. In coordination with the State Auditor's Office, an independent CPA firm has been engaged to perform this audit with an October 15, 1993 completion deadline.
- 12 Procedures are now being established to ensure timely deposit of all funds.
- 13 Vehicle records will be implemented and maintained in the same manner as any other State Agency.
- 14 The Department of Commerce will review this matter and, unless a compelling reason is found to retain a boat, it will be disposed of, in accordance with applicable statutes.
- 15 A thorough review of the options here will be explored with appropriate officials. By your comments and analysis, it may be difficult to obtain a lot of benefit from a substantial portion of the investment. However, we will work to ensure that the best interests of the State are protected on this investment.
- 16 As mentioned earlier, the Department of Commerce will ensure full compliance with the procurement code and all related statutes.
- 17 We will review this matter with the appropriate officials and ensure an adequate plan is in place.
- 18 We will ensure compliance with all such audit requirements.
- 19 These statements will be filed.
- 20 We will undertake a thorough review of this matter and propose an appropriate use of these funds.

**Appendix
Agency Comments**

..... The Water Resources Commission had the opportunity to comment on the finding on page 21 of the report.

**Appendix
Agency Comments**



South Carolina Water Resources Commission

1201 Main Street, Suite 1100 ☐ Columbia, S.C. 29201 ☐ Telephone (803) 737-0800

Alfred H. Vang
Executive Director

September 22, 1993

Mr. George Schroeder, Director
Legislative Audit Council
400 Gervais Street
Columbia, South Carolina 29201

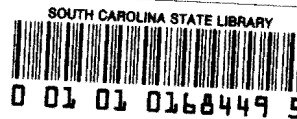
RE: Final Comments Pertaining to the Savannah Valley Authority Audit
Re: "Computer Model Funding"

Dear Mr. Schroeder:

The Savannah River Basin Water Budget and Reservoir Operation Model is complete, functional, and operational. The Audit Council's repeated assertion that it is incomplete is not accurate. The model product promised to the Savannah Valley Authority has been delivered. Beta versions of the model were distributed to the U.S. Army Corps of Engineers, the Southeastern Power Administration, Duke Power Company and the Georgia Department of Natural Resources in early 1992 for initial review. The model is running and is being used to forecast drought conditions in the Savannah River Basin. Last week, the Savannah District, Corps of Engineers, requested model runs to compute various strategies for drought management of the lakes. These data were forwarded to the Corps on September 17, 1993. A computer model of a watershed is by nature a dynamic tool, and, as such is never fully "completed." Data must constantly be revised to replicate existing conditions and the model must be revised accordingly. We do wish to emphasize, however, that the model should be considered completed, and it is being used.

This brings me to my second point. During our initial discussion of this section, I offered to set up peer review committees of appropriately trained faculty of major research universities to address your concerns, for example, completeness. This offer was declined. Additionally, we offered to show the model to your staff or to persons chosen by your staff who have the necessary expertise to evaluate this model. These offers were refused.

My final comment concerns the resources invested by the Water Resources Commission in this project. As noted in our earlier response, State ordered budget reductions during FY 90-91 and FY 91-92 necessitated the reduction of all agency contractual research activities, including the computer modeling project. We also noted that for the period FY 1989-90 and FY 1990-91, 5,779 man hours were spent on this project. This is equivalent to 770 working days, which is considerably more than one FTE's time. Several of our technical staff were involved in developing the model. In addition, the Audit Council's dollar reference of our expenditures is grossly in error. The modeling project was an

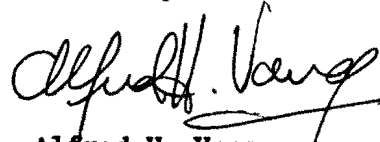


Mr. George Schroeder
September 22, 1993
Page two

extensive commitment by the Commission and the State to create a new state of the art tool to help manage one of South Carolina's most valuable resources. We believe that these funds were well spent in insuring the integrity of the waters of the Savannah River Basin for the citizens of South Carolina.

While this letter comprises a brief reply on only a few points, I refer you and your staff to the comprehensive response we provided your office on September 2, 1993, and which was discussed at the Legislative Audit Council meeting September 7th.

Sincerely,



Alfred H. Vang
Executive Director

AHV:kan
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